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C O N F I D E N T I A L SECTION 01 OF 03 NEW DELHI 004819

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SUBJECT: PRIVATIZATION POLICY LEADS TO PRIME MINISTERIAL  
RESIGNATION "CRISIS"

REF: NEW DELHI 4062

Classified By: Charge Geoff Pyatt for reasons 1.4 (B,D)

11. (C) Summary: A relatively minor affair regarding the 10 per cent privatization of a public sector company in Tamil Nadu caused the UPA to suspend its entire privatization program (Septel), and the opposition BJP to call for the resignation of Prime Minister Singh. On July 7, New Delhi was awash with rumors that a frustrated Manmohan Singh actually submitted a resignation letter to Congress Party President Sonia Gandhi, but was talked into withdrawing it the next day. Congress is divided between supporters of the Singh economic agenda and a strong pro-Left block, which has consistently worked against reform, while powerful UPA regional parties have openly worked with the Communists to counter UPA economic proposals. If such a resignation drama actually took place, it could have represented a play by the PM to call the bluff of his opponents, compel Congress to unite behind him, and the Left to tone down its incessant sniping. It may have already borne fruit, as the Communists have renewed their support for a full five year term for the UPA. End Summary.

Brinkmanship Southern Style  
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12. (C) On July 6, Tamil Nadu Chief Minister M Karunanidhi threatened to pull his DMK party out of the UPA coalition if the UPA proceeded with plans to privatize 10 per cent of the Neyveli Lignite Corporation, a public sector coal mining and power generating company in Tamil Nadu. Citing his government's fledgling status, Karunanidhi reportedly questioned the UPA's standing to make Tamil Nadu the next test case for privatization (Septel). Karunanidhi threatened the pull out around 1300. By 1500, Prime Minister Manmohan Singh announced that he had "put on hold" the entire

privatization process in response to the incident. Government insiders tell us that this PM announcement came in the immediate aftermath of a conversation with Sonia Gandhi, who ordered the stand down.

#### Encourages Onerous Opposition Demands

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13. (U) The PM's action engendered a quick opposition response. On July 7, BJP spokesman Arun Jaitley demanded Prime Minister Manmohan Singh's resignation over his handling of the privatization issue. Accusing the UPA government of "complete paralysis of policymaking," Jaitley intoned that "it is time for the Prime Minister to ask himself 'why am I here.'" According to Jaitley, the PM has been more than willing to please "any and every pressure group," has "outsourced" his foreign policy (to the CPI-M), and "given up" economic reforms under pressure from the Left. Rumors quickly circulated that the PM had already dispatched a letter of resignation and was preparing to leave office.

#### Congress Backs Up the PM

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14. (U) The embattled Congress swung into action to present a unified face against the opposition onslaught. The PM's office denied the resignation rumors, while on the night of July 7, the Congress "core group" met at the Prime Minister's residence to craft a response. After the meeting Montek Singh Ahluwalia, the Deputy Chairman of the Planning Commission downplayed the privatization issue, stating that

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"the process of economic reform was not synonymous with disinvestment (privatization)," and that there were "no differences" between the PM and Congress on the issue. The party then condemned the BJP resignation demand as "highly condemnable" and the BJP description of the Prime Minister as "weak" as "completely unjustified." Congress then praised the Prime Minister for doing a "good job" in implementing the "Common Minimum Program (CMP)."

15. (U) The Congress statement specified that "The Congress Party is firmly committed to our goal of inclusive growth and the welfare of the disadvantaged sections of society and the reforms agenda as laid out in the CMP." A Congress spokesman maintained that the UPA was not "weak" but rather "sincere" in its determination to "carry out a coalition agenda." She contrasted the UPA performance on privatization with that of the previous government, claiming that it had backed down on privatization 12 times during its tenure. "By that token, AB Vajpayee was the weakest Prime Minister," she claimed.

#### But Rumors Persist

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16. (U) Unconfirmed press reports insist that there was more to the resignation threat than Congress was admitting. One report claimed high ranking Congress sources have confirmed that PM Singh has long chafed under constant criticism and interference from the Left parties and had been seriously thinking about resignation. According to the report, the Karunanidhi episode was the last straw, compelling PM Singh to draft a resignation letter and hand it to Party President Sonia Gandhi on the night of July 6. The next morning, the PM purportedly withdrew his resignation at the behest of Defense Minister Pranab Mukherjee and Information Minister Priya Ranjan Das Munshi, who were acting as Mrs. Gandhi's personal envoys.

#### Singh Feeling the Strain

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17. (U) Press reports allege that PM Singh has been complaining for some time to the Congress inner circle about the constant "strain and pressure" of dealing with the

repeated threats and "big bossing" of the CPI(M) and other left leaders on economic issues, and was also unhappy that "a section in the Congress" opposed his economic policies, even though they had been drafted and cleared by the highest levels of the party leadership.

Comment

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18. (C) The drama surrounding the resignation rumors reflects the deep divides within Congress and between Congress and the regional parties of the UPA alliance. It is common knowledge that a leftist coterie within Congress (said to include Mani Shankar Aiyar, Jairam Ramesh, and Human Resources and Development Minister Arjun Singh), sympathizes with the Communists on many economic issues and has persistently sniped at many aspects of the PM's reform agenda. In addition, the resurgent Communists (reftel) have become more outspoken in their criticism of the economic agenda following their recent electoral successes and have roped powerful regional parties into an ad hoc anti-reform alliance. In recent weeks, the Samajwadi Party (SP) of Uttar Pradesh (UP), and the Telugu Desam Party (TDP) of Andhra Pradesh have joined the Left in criticizing economic liberalization and opposing price hikes for petroleum and diesel. On July 6,

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the DMK's Karunanidhi joined this growing bandwagon, aligning almost all the major regional parties against economic reform. On July 9 Railway Minister and head of the powerful Bihar-based Rashtriya Janata Dal (RJD) endorsed Karunanidhi's stance regarding privatization.

19. (C) There is little fear in Congress circles that the deeply-divided BJP will be able to unseat the UPA. However, this lack of an alternative has freed the UPA to engage in disturbing internecine quarreling and provided an opening for the Left to recruit disenchanted regional parties into a potential alliance. Although we are not yet able to confirm the rumors regarding Singh's purported resignation, the Prime Minister is the principal architect of the economic liberalization package and the lack of strong support from the UPA parties and Congress has put him under strain and must be disquieting to a man who usually operates above the rough and tumble of Indian politics. The reversal on disinvestment is surely upsetting to Manmohan Singh the economist, who knows how vitally important economic reform is, and who has worked very hard to pursue it. But in this case, political good sense has trumped economic good sense. The PM's sympathizers argue (rightly) that disinvestment is marginal to the overall reform effort, so it makes little sense to expend too much political capital on an issue with limited economic benefit. It is not inconceivable that the PM decided to call the bluff of his opponents by staging a resignation drama. Singh could not help but notice that shortly after the resignation rumors became public, CPI(M) father figure Jyoti Basu expressed "happiness" that a crisis had been averted, saying that although the Communists were unhappy that the CPM has not been properly implemented, they want the Manmohan Singh government to serve out its full five year term.

10. (U) Visit New Delhi's Classified Website:  
(<http://www.state.sgov.gov/p/sa/newdelhi/>)  
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